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Message Text

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56
ORIGIN AGR-10

INFO OCT-01 EUR-12 IO-11 ISO-00 EB-07 STR-04 TRSE-00

COME-00 ITC-01 /046 R

DRAFTED BY USDA:KHOWLAND:JVM
APPROVED BY EB/OT/TA:WGBARRACLOUGH
USDA:GFRASER
EB/OT/GCP:CBLACK
EB/OT/TA:TFO'HERRON
STR:JSTARKEY
EUR/RPE:ECASEY
TREASURY:COULLETTE
EB/OT/TA:GLSTREEB
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R 152004Z MAR 76
FM SECSTATE WASHDC
TO USMISSION EC BRUSSELS
AMEMBASSY BONN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
INFO AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USDEL MTN GENEVA
USMISSION OECD PARIS
AMCONSUL BREMEN

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E.O. 11652:

TAGS:

SUBJECT: EC CIGARETTE TAX HARMONIZATION

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REFS: (A) EC BRUSSELS 1533; (B) STATE 9659 (1/17/73)

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1. PRELIMINARY ASSESSMENT OF EC COMMISSION PROPOSAL FOR SECOND STAGE OF TOBACCO TAX HARMONIZATION INDICATES THAT U.S. TOBACCO EXPORTS TO THE EC WOULD BE ADVERSELY AFFECTED IF THE PROPOSAL WERE TO BE ADOPTED IN ITS PRESENT FORM. CONSEQUENTLY, MISSION IS REQUESTED (1) TO POINT OUT AGAIN TO COMMISSION VITAL U.S. TRADE INTEREST IN HARMONIZED TAX STRUCTURE, AND (2) TO INFORM COMMISSION THAT USG, AFTER HAVING REVIEWED PROPOSED DIRECTIVE, MAY REQUEST CONSULTATIONS AS PER FEBRUARY 1972 US/EC AGREEMENT ON TRADE. OTHER ACTION ADDRESSEES ARE REQUESTED TO DETERMINE PRELIMINARY REACTIONS OF HOST GOVERNMENTS TO PROPOSAL.

2. WHEN INFORMING COMMISSION OF POSSIBLE FUTURE REQUEST FOR CONSULTATIONS, MISSION MAY ALSO RESPOND TO COMMISSION ESTIMATES OF TAX IMPACT (PARA. 3, REF. A) ALONG FOLLOWING LINES.

3. REDUCTION IN SPECIFIC COMPONENT TO A MAXIMUM OF 50 PERCENT OF TOTAL TAX CLEARLY WOULD RESTRICT DEMAND FOR HIGH QUALITY, HIGH VALUE U.S. CIGARETTE LEAF IN WEST GERMANY,BENELUX AND DENMARK WHICH TOGETHER TOOK MORE THAN 200 MILLION DOLLARS OR OVER HALF OF U.S. EXPORTS TO EC IN 1975. IMPACT OF SECOND STAGE WOULD BE EVEN MORE SEVERE IN UK AND IRELAND WHEN THESE MEMBERS REPLACE THEIR WHOLLY SPECIFIC TAXES WITH THE STRUCTURE IN PLACE IN THE REST OF EC IN 1978. UK AND IRELAND TOOK 134 MILLION DOLLARS OR 34 PERCENT OF U.S. EXPORTS TO EC IN 1975.

4. U.S. EXPORTS TO FRANCE AND ITALY WERE 60 MILLION DOLLARS IN 1975 OR ONLY 15 PERCENT OF TOTAL TO EC. WE SERIOUSLY DOUBT THAT ADOPTION OF 15 PERCENT MINIMUM SPECIFIC COMPONENT IN THESE MEMBERS WILL SIGNIFICANTLY INCREASE THEIR DEMAND FOR U.S. LEAF, PARTICULARLY IN FRANCE, GIVEN SEITA CONTROLS AND FRENCH PREFERENCE FOR DARK TOBACCO CIGARETTES.

5. BEGIN FYI: IT IS NOT POSSIBLE TO QUANTIFY WITH UNCLASSIFIED

PRECISION THE POSSIBLE IMPACT OF 50/50 STRUCTURE PROPOSED FOR SECOND STAGE. BEST ESTIMATES INDICATE IT COULD MEAN AS MUCH AS 10 PERCENT LOSS IN U.S. EXPORTS TO MAJOR EC MARKETS BY 1980. END FYI.

6. U.S. POSITION IN FEBRUARY 1972 DISCUSSIONS WITH EC WAS THAT AN AD VALOREM COMPONENT OF GREATER THAN 25 PERCENT (INCLUDING VAT) IN COMBINATION WITH HIGH

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24.01A CXT AND EC DUTY PREFERENCES WOULD WORK TO ERODE DEMAND FOR U.S. TOBACCO. THIS VIEW WAS SHARED BY THE CIGARETTE INDUSTRIES IN MOST EC MEMBER STATES. THE U.S. URGED THE EC NOT TO REDUCE THE 75 PERCENT SPECIFIC COMPONENT PERMITTED IN THE FIRST STAGE DIRECTIVE WITHOUT PROVIDING SUBSTANTIAL TARIFF RELIEF - NAMELY, REMOVAL OF THE 24.01A DUTY.

7. FYI: U.S. TOBACCO INTERESTS, IN 1972 SENATE HEARINGS, IN TESTIMONY BEFORE THE ITC ON TRADE BILL, AND IN ADVICE TO STR THROUGH AGRICULTURAL TECHNICAL ADVISORY COMMITTEE ON TOBACCO, HAVE CONSISTENTLY WARNED AGAINST THE IMPACT OF AN AD VALOREM EXCISE TAX, AND HAVE POINTED OUT THE DISCRIMINATORY EFFECT OF EC TOBACCO TARIFF ON U.S. TRADE. THE U.S. INDUSTRY IS AWARE OF THE COMMISSION'S SECOND STAGE PROPOSAL AND HAS ALREADY URGED USG TO TAKE IMMEDIATE STEPS TO OPPOSE ITS IMPLEMENTATION. KISSINGER

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